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Better finances,
better lives




The Budget Speech 2000

The Honourable Paul Martin, P.C., M.P.
Minister of Finance

February 28, 2000

Canada



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Department of Finance
Canada

Ministère des Finances
Canada

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Introduction

Mr. Speaker, before I begin, I want to express the Government's appreciation to the Standing Committee on Finance and the many committees of caucus for their invaluable contributions in the lead-up to this budget.

Most importantly, on behalf of this Parliament, I want to thank Canadians – from all walks of life and all parts of the country – who shared their ideas and insights with us.

The experience of the last few years has confirmed, beyond doubt, that an open budget process is a better budget process.

Mr. Speaker, throughout our country's history, each generation has undertaken the great task of building Canada.

Today, at the dawn of a new century, we are fortunate indeed to live in a land of promise, in a world of change, in a time of opportunity.

Are there problems? Yes there are – and there is much to be done.

That being said, we are in a better position today to chart our own course than we have been in many a decade.

Economic Strength

Canada's economic growth is among the strongest of the Group of Seven (G-7) countries.

The size of our economy will surpass the trillion-dollar mark this year.

The deficit is a matter of history. Indeed, today we project the third, fourth and fifth balanced budgets in a row – something that has not been done in nearly half a century.

Inflation remains in check.

The government debt burden is declining.

Canada's foreign debt burden is declining.

Consumer and business confidence are at near-record levels.

Most importantly, after a number of difficult years, these positive economic indicators are now beginning to be reflected in the daily lives of Canadians.

In 1999, there were more than 425,000 new jobs created in Canada – a pace unmatched by any other G-7 country and, as a result, our unemployment rate stands at 6.8 per cent – its lowest level in nearly a quarter of a century.

In the early and mid-1990s, Canadians saw their real after-tax incomes shrink. Three years ago, that trend began to turn around. Today, disposable incomes are some 3 per cent higher than they were in 1996 and, of even greater moment, private sector forecasters project that incomes will rise much more significantly in the years ahead.

This is clearly good news.

However, Mr. Speaker, while the progress of recent years is a record on which Canadians can be proud to stand, it is not a record on which we are prepared to rest.

Canadians do not want to dwell on the past. They want to focus on the future.

Indeed, that is the message of this budget.

In 1993, we established a plan to eliminate the deficit, to turn our economy around and create new jobs. That plan has worked.

Now – two months into the year 2000 – we must take Canada further. We must create a greater prosperity and see to it that the benefits of that prosperity are shared widely.

Our challenge now is to build on our new-found strength.

Canadians know that this is the time to act. They know that globalization and the rush of technology will not wait for us, nor will these forces pause for us to prepare. The challenges are here and the opportunities are now.

Building for the Future: Our Plan

In last fall's fiscal update, we asked ourselves three fundamental questions:

First, what will it take to secure our position as a leader in the new economy?

Second, how can we provide every Canadian with an equal opportunity to succeed?

And third, how can we ensure the best quality of life for all Canadians, not simply a fortunate few?

In this budget, we outline our response to those questions.

First, we will continue to provide sound fiscal management. There will be no slipping, no sliding: the days of deficit are gone and they are not coming back.

Second, we will lower taxes to promote economic growth and to leave more money where it belongs – in the pockets of Canadians. As we said last November, Canadians are entitled to keep more of the money they earn. After all, they worked for it. It's theirs.

Third, in order to ensure equality of opportunity, we will invest in providing Canadians with the skills and knowledge they need to get the jobs they want.

And fourth, together we will build an economy based on innovation. For that, ultimately, is the only means by which a modern nation can control its future.

Reflecting Our Values: Education and Health Care

Mr. Speaker, these four elements speak to our economic framework. But our plan must do more than that.

It must reflect not only the value of our economy, but the values of our society.

Make no mistake – the success we have achieved as a nation has come not only from strong growth, but from an abiding commitment to strong values – caring and compassion, an insistence that there be an equitable sharing of the benefits of economic growth.

These are the bedrock of our nation. They must be the cornerstone of our plan.

For this reason, the first announcement of the first budget of the 21st century is that we will increase funding for post-secondary education and health care.

These are the highest priorities of Canadians – and they are ours.

We have already acted three times to strengthen the cash transfers to the provinces through the Canada Health and Social Transfer (CHST).

Indeed, last year, for health care alone, we made the single largest investment in this government's history.

At that time, we also said we would do more, as resources permit. Today, we make good on that commitment. We are announcing the transfer of a further \$2.5 billion to the provinces to use over four years for post-secondary education and health care.

Furthermore, to meet pressing needs in our universities, colleges and hospitals, the provinces will have the flexibility to draw upon this new cash sooner – should they choose to do so.

As a result of this and last year's budgets, the cash component of the CHST will rise from the 1998-1999 level of \$12.5 billion to \$15.5 billion next year – an increase of almost 25 per cent over just two years.

Therefore, the total annual support provided through the CHST – tax points and cash – will reach close to \$31 billion next year – an all-time high.

We have guaranteed the provinces stable and growing funding for health care and post-secondary education.

Today, that is what we are continuing to do.

Nor is that the end of the story.

Equalization payments to the provinces will be \$500 million higher this year than projected in last year's budget.

As a result, Equalization transfers as well are now at an all-time high.

This means more money for less prosperous provinces for health care, education and other programs.

Sound Financial Management

Mr. Speaker, let me now turn to our plan for building a stronger economy.

Prior to the fall update, we consulted with a number of economists from Canada's major chartered banks and four major forecasting firms.

This invited a national debate on our longer-term objectives – a debate based on a series of projections about the size of the budget surplus for each of the next five years.

These projections were sound. But we also know, especially for the later years, that they are just that – projections. They are bets on the future, not money in the bank.

Therefore, while we must always set longer-term objectives, we will continue to make decisions only on a rolling two-year basis.

We will also continue to build additional prudence into our planning and to set aside a \$3-billion Contingency Reserve to protect against unforeseen events.

Let there be no doubt, this government will not repeat the mistakes of others and spend money we might not have, or raise expectations we cannot meet.

Nor will we abandon the balanced approach we have adopted from the beginning – an approach which recognizes that debt reduction, tax relief and spending on health, post-secondary education and other key priorities are not competing claims, but complementary components of a fair and effective plan.

Let me now turn to the debt.

Canada has not just eliminated its deficit. We are one of the few countries that is now reducing the absolute amount of its debt, and we will continue to do so.

Indeed, over the past two years, we have paid down the debt by more than \$6 billion, resulting in interest savings of more than \$300 million a year, every year.

As well, market debt – the debt issued in financial markets – has fallen even further. By the end of this fiscal year, we will have reduced it by close to \$20 billion.

Even more importantly, Canada's debt-to-GDP (gross domestic product) ratio, which measures the amount of debt against the size of our economy, has improved markedly. The lower the ratio, the more manageable the debt.

In 1995, Canada's debt ratio was 71 per cent. Today it has dropped by 10 percentage points and should fall below 50 per cent by the year 2004.

Beyond this, the downward track must continue. We are still a long way from the 25-per-cent ratio Canada enjoyed in the late 1960s – the last time our books were in the black.

Mr. Speaker, economic growth has played an important role in Canada's falling debt ratio. So has controlling government spending.

We have previously pointed out that federal government spending, as a percentage of GDP, is at its lowest level in 50 years.

The fact is that even after taking into account the measures to be outlined in this budget, program spending next year will be \$4 billion lower than it was when we took office in 1993.

Let there be no doubt – we will control spending.

For instance, beginning with the time we balanced the books and looking ahead to the year 2001-2002, growth in program spending is projected to be in line with inflation plus population growth – the standard used by most economic commentators.

Having said that, the standard of living we enjoy does not come free.

For instance, fully two-thirds of all the new spending measures since we eliminated the deficit have been in the areas of health care, post-secondary education and innovation.

Furthermore, there are other fields where the Government must take action, areas where we have fundamental responsibilities at home and essential obligations abroad.

The crisis faced by farm families and communities across the country is real, and better short- and long-term solutions are required.

The RCMP faces new challenges in the area of organized crime and international terrorism.

The demands upon our military, whose men and women contribute so much at home and abroad, are increasing.

Within our borders, we must strengthen our immigration system.

Beyond our borders, we have an obligation to help the poorest of the world's poor.

In each of these areas we are providing additional funding.

The New Economy

Mr. Speaker, let me now turn from the responsibilities of the present to the opportunities of the future. Let us address the new economy.

At this, the beginning of the 21st century, we have a unique chance to take hold of our destiny. The basic question we have to answer is: What are the choices we must make today that in 5, 10 and 20 years' time will be seen as having made a critical difference in making Canada the land of opportunity?

Powered by the information revolution and a cascade of new technologies, distance is disappearing, borders are collapsing and a world once divided is now connected as never before.

Microprocessors and microchips, satellites, fibre optics and the Internet are changing the way we live, work and communicate. The result is the most significant economic transformation of our time.

Today, the strength of a nation is measured not by the weapons it wields, but by the patents it produces; not by the territory it controls, but by the ideas it advances; not only by the wealth of its resources, but by the resourcefulness of its people.

In such a world, successful nations will only be those that foster a culture of innovation. They will be those that create new knowledge and bring the product of that knowledge quickly to market. Our goal as a nation must be to lead the way.

Our goal must be to inspire a spirit of entrepreneurship, one that asks our people to reach higher and look further, one that encourages us to see the world as our market, but Canada as the place to live.

As a country, we are well placed – far better than most – to seize the opportunities of the 21st century.

But there is nothing inevitable about our progress.

If we are to capitalize on the opportunities of the new economy, both the private and public sectors have their roles to play.

The private sector must change its concept of risk. It must improve access to capital, give greater priority to start-up companies and exploit the full potential of new technologies like the Internet to capture markets in every corner of the globe.

Government, in turn, must reduce the regulatory burden. It must help fill the gaps in an economy which is increasingly moving from brick to "click."

What must government do?

It must equip Canadians to succeed.

That means:

An education system second to none.

Basic research – the raw material of the new economy.

Secure social programs that recognize that real progress is made by reaching for the top, not racing to the bottom.

And a tax system that is both fair and competitive.

Skills and Knowledge

Mr. Speaker, if we are to talk about a more innovative economy, we must begin with people.

Skills and knowledge join the ambitions of the individual with the potential of the country. They are the meeting place between social and economic policy – the best means available to us to narrow the gap between rich and poor.

That is why, in 1998, we introduced the Canadian Opportunities Strategy – a multi-part plan to expand access to knowledge and skills.

Last year, we built upon that foundation. And today, we build further.

First of all, as we have already discussed, this budget increases support to the provinces for post-secondary education by increasing the cash available through the CHST.

Second, we will follow through on the commitment made in the Speech from the Throne to create new 21st century chairs for research excellence.

These will be new research positions at Canadian universities, designed to attract the best researchers from around the world and to retain the best from across Canada.

Half of these positions will be directed to Canada's leading scientists and half to the very best of the next generation of young Canadian researchers.

In October, the Prime Minister said, and I quote: "This investment...will truly make Canada a leader in the knowledge-based economy, and will truly brand Canada as a country that values excellence and is committed to success ..."

This initiative will help Canadian universities not only to meet the standards set by others today, but to set new standards that others will have to meet tomorrow.

To this end, this budget provides \$900 million of funding over five years for 2,000 new research chairs.

Third, as Canadians – especially young Canadians – turn more and more to the Internet as a source of information, it is important that they see their own reflection and hear their own stories.

Therefore, in this budget, we are providing funding to enhance the presence of Canadian cultural material on the Internet in both official languages.

Fourth, scholarships and bursaries are an important part of expanding access to higher learning. In order to ensure that more students receive their full value, we are increasing the tax exemption from its current level of \$500 to \$3,000.

Supporting Research

Mr. Speaker, research and development is the foundation for new products and processes. It is what smart companies always do. It is what smart countries must do.

Quite simply, we must ensure that within our borders we have a research capacity that is constantly pushing forward the frontiers of human knowledge.

In the 1997 budget, this government created the Canada Foundation for Innovation (CFI). To date, it has awarded \$450 million to help post-secondary institutions, research hospitals and not-for-profit organizations to modernize their laboratories, their equipment and their technologies.

Almost half of its funding has been directed at health research.

The CFI is one of the cornerstones of our plan to support the new economy but if we do not act now, its funding will run out within two years.

Therefore, in order to enable it to extend its awards into the year 2005, this budget provides \$900 million to the CFI, raising the Government's total investment to \$1.9 billion.

Mr Speaker, because health research holds such potential – to contribute not only to the quantity of our knowledge, but also to the quality of our lives – last year's budget announced the creation of the Canadian Institutes for Health Research – an initiative that will transform the way research is done in this country.

Today, we take another important step.

Understanding how genes function opens the door to substantial progress in advancing the treatment of cancer and other life-threatening diseases.

Gene research will save the lives of many. It will enhance the lives of still more. It will surely form the basis for many advances in biotechnology, which many believe will be as important in the new century as computer technology was in the last.

For this reason, we are announcing today that we will commit \$160 million to create the Genome Canada project – with five centres across the country, providing laboratory facilities for researchers from universities, government and the private sector.

Mr. Speaker, Canada is one of the world's leaders in the field of biotechnology. However, we recognize that biotechnology, for all its potential, also raises concerns.

Canadians want to know that we understand and can manage its risks, that health, environmental and ethical limits will be identified and respected.

Therefore, this budget will provide funding over the next three years to ensure that as we receive the benefits of biotechnology, we also have the ability to ensure its safety.

The Environment

Mr. Speaker, for Canadians of all ages, protecting the environment is not an option – it is something that we simply must do. It is a fundamental value – beyond debate, beyond discussion. For this reason, this budget provides additional resources to further clean up the Great Lakes, ensure environmental enforcement, protect species at risk, aid international efforts to reduce organic pollutants in the North, and provides development assistance to deal with greenhouse gas emissions in developing countries.

Furthermore, we are announcing today that in order to preserve natural habitats and species, we are cutting – by half – the capital gains tax arising from the donation of ecologically sensitive lands.

Mr. Speaker, in 1998 we, along with the other orders of government, non-governmental organizations and the private sector, launched the process required to develop a national climate change strategy. These consultations are concluding and the strategy should be unveiled by the end of the year.

However, within the context of a budget seeking to prepare our economy for the 21st century, there are a number of things we can and we must do now.

The unequivocal fact is that climate change – indeed, the entire environmental spectrum – will provide challenges, but for an innovative economy it presents many more opportunities.

Indeed, those nations which demonstrate how to truly integrate environmental and economic concerns will forge new tools and develop new technologies that others will have to adopt.

Tremendous rewards await those nations that get there first, for those which do it best.

Given the importance of natural resources to our country and because of the severity of our climate, leadership in this area of the new economy is not a matter of choice for Canada.

Quite simply, we must apply the same innovative thinking, the same spirit of enterprise, the same technological ingenuity, to protecting and enhancing our environment, as we have to becoming world leaders in the fields of telecommunications, transportation and so many others.

Technology is key.

Make no mistake, if we are to successfully tackle climate change, if we are to cut costs and boost productivity, if we are to transform ourselves into the world leader in the field of clean energy, then we have to employ every bit of the skill and knowledge we possess.

Accordingly, this budget takes a number of targeted actions.

First, we are announcing today the creation of the Sustainable Development Technology Fund. This fund will foster innovation by helping companies develop new technologies and bring them to market in areas such as clean burning coal and new fuel cell developments.

Second, we are announcing that we will create the Canadian Foundation for Climate and Atmospheric Sciences – a network of institutes which will link researchers from across the country in order, for instance, to further our understanding of the impact of climate change and air pollution on human health.

Third, this government is beginning to change its procurement policy to move, as much as possible, to more environmentally friendly energy, stimulating market demand for green power.

Fourth, the Federation of Canadian Municipalities and La Coalition pour le renouvellement des infrastructures du Québec have worked on excellent proposals in the area of green infrastructure. These allow us to extend the hand of partnership to those on the front lines of the fight for a cleaner environment.

One of these proposals is a Green Municipal Enabling Fund to help communities assess where their environmental needs are greatest.

A second is a revolving fund, leveraging private sector investment in areas such as waste management and water conservation at the municipal level.

This budget, Mr. Speaker, gives effect to both proposals.

Finally, as we move to more fully integrate economic and environmental policy, we must come to grips with the fact that the current means of measuring progress are inadequate.

Therefore, we are announcing today that the National Round Table on the Environment and the Economy and Environment Canada, in collaboration with Statistics Canada, will be provided

funding over the next three years to develop a set of indicators to measure environmental performance in conjunction with economic performance.

In the years ahead, these environmental indicators could well have a greater impact on public policy than any other single measure we might introduce.

Mr. Speaker, when all of these measures are taken together, this budget will invest \$700 million in environmental technologies and practices. We are making this investment because protection of the environment is a fundamental value of our country. But let us understand as well, it is also good economic policy. It is a key element of our plan to build a more innovative economy.

Make no mistake, far from being a cost we cannot afford, environmental protection is an opportunity we cannot forego.

Mr. Speaker, there is another aspect of our plan that is of critical importance. To succeed in the new economy, we must ensure that it takes root in every part of our country.

This perspective was at the heart of *Catching Tomorrow's Wave*, a report prepared by our Atlantic caucus. We have heard them loud and clear.

Indeed, a similar point has been made by other members of our caucus – in a very different context.

They point out that while we must ensure that all provinces participate in the benefits of the new economy, even within provinces, there are major differences between urban and rural communities.

The concerns of rural Canadians are those shared by all Canadians – quality health care, the best education for their children, a good job. The difference is that, in the case of rural Canada, a hospital closing, a school cutback or the loss of a major employer threatens the very life of the community.

Therefore, we must expand economic development in smaller communities right across the country, north and south, east and west. We must recognize that in the years ahead, all orders of government have to come together, as never before, to broaden opportunities right across the country.

As one example, that is why we said last week that, in addition to monies previously announced to meet farm needs across Canada, we would commit a further \$240 million for farm families on the prairies. When combined with an additional \$160 million from the concerned provinces, this provides an immediate relief package of \$400 million.

Mr. Speaker, we can also enhance opportunities across Canada by strengthening the basic physical infrastructure which underpins so much of the economic activity of both rural and urban Canada.

Whether it is urban transit, a grain road on the prairies or the highways of our country, the capacity to move people and goods safely and efficiently is key to an innovative and productive economy.

Affordable housing and green infrastructure are also essential elements of a modern society. They are critical to meeting the 21st century needs of our municipalities.

To these ends, the Government has announced that we will work with other orders of government and, where applicable, the private sector to reach agreement on a plan to improve provincial and municipal infrastructure in cities and rural communities across Canada.

We hope to have an agreement by the end of the year. For its part, the federal government is prepared to commit \$450 million over the next two years and \$550 million in each of the following four years.

Children

Mr. Speaker, having spoken about what it will take to succeed in the world of tomorrow, let me turn now to the authors of that future – our children.

Let there be no doubt: assisting families is not only the smart thing to do, it is the right thing to do.

An important key to our children's success is the strength of the communities in which they live.

That is why federal and provincial governments agreed to develop a National Children's Agenda – to expand the capacity of governments, voluntary organizations and our communities to provide the services and support upon which so many of our families and their children rely.

This agenda is critical. And it simply must be advanced.

As the next step, the Prime Minister invited all governments to reach agreement, by December of this year, on an action plan for early childhood development.

Our objective is simple. Whether it be further services or income supports, all orders of government must be prepared to do more for our children.

In this same respect, in the Speech from the Throne, the Government committed itself to improving support for children by extending maternity and parental benefits under the employment insurance program from the current six months to one year. This budget honours that commitment.

Mr. Speaker, these initiatives focus on the needs of children. They deal with the services and programs their families require.

But let there be no doubt, one of the best things we can do is to leave parents with more money at the end of each month to invest in their children's well-being.

Tax Relief

It was with this very much in mind that the Government sought to design its tax reduction plan.

The principles underlying that package are as follows:

First, while tax reduction must ultimately benefit all Canadians it must primarily benefit those who need it the most – middle- and low-income earners, especially families with children.

Second, broad-based tax reductions should focus initially on personal income taxes.

Third, the business tax system must be internationally competitive.

And finally, broad-based tax reductions should not be financed with borrowed money.

In the 1997, 1998 and 1999 budgets we lowered the average personal tax burden of Canadians by 10 per cent.

Today, with surpluses projected for the coming years, the time has come to do more. Today we are setting out a five-year tax plan so that individuals, families, small businesses and others will know for certain that their taxes will fall this year, next year and in the years to come.

The plan we are presenting today provides real and significant tax relief. It is anchored in two fundamental structural changes.

First, Canadians know that taxes cannot start to come down in earnest until they stop going up with inflation.

Inflation should not force lower-income Canadians onto the tax rolls and others into higher tax brackets.

Nor should inflation erode the real value of the Canada Child Tax Benefit and the goods and services tax (GST) credit.

Nor should it erode the real value of the age credit for Canadian seniors, nor the income level at which the Old Age Security begins to be reduced.

Therefore, we will make the most important change to the Canadian tax system in more than a decade.

We will restore full indexation to the personal income tax system – and we will do so immediately.

Indeed, we will do so retroactively – to January 1, 2000.

Second, it has been over 12 years since the actual tax rates of Canadians have come down.

In practical terms, this has hit middle-income earners the hardest, because the federal tax rate jumps by 9 points – from 17 to 26 per cent – as soon as someone's income reaches \$30,000.

Therefore, over the next five years, we will lower the middle tax rate from 26 to 23 per cent.

Most importantly, we are announcing today that two-thirds of that reduction – down to 24 per cent – will go into effect on July 1 of this year.

Mr. Speaker, re-indexing the tax system and lowering tax rates will provide a significant benefit for all Canadians but as well, we will go further.

Over the next five years, we will increase the amounts Canadians can receive tax-free to at least \$8,000 and we will raise the income levels at which middle and upper tax rates begin to apply to at least \$35,000 and \$70,000 respectively.

These amounts will provide significant relief but they are only the start. In future budgets, when we can do more, we will.

Mr. Speaker these structural changes mean substantial tax relief for all Canadians.

But for families, we are doing more.

I hardly need to remind this House that the cost of raising children is a significant expense. Ask any parent about the price of new shoes, or snowsuits. Ask any parent whose child plays sports or takes music lessons. Ask any parent trying to save for their child's education.

The purpose of the Canada Child Tax Benefit – the CCTB – is to help with these costs.

In July 2000, the maximum payment for a family's first child will rise to \$1,975, a level at which it was to remain in 2001 and subsequent years.

Instead of leaving the benefit at that level, we are announcing today that the CCTB will be further increased in July 2001 to \$2,265, and to \$2,400 over the next five years. Amounts for each additional child will keep pace with these increases.

Nine out of ten Canadian children will benefit from these improvements.

Mr. Speaker, at the present time, the Canada Child Tax Benefit is of greatest value to lower-income Canadians. The measures we are introducing today will add to that benefit while extending it more fully for middle-income families.

For example, a single mother earning \$25,000, with one child, will see her benefits increase by 22 per cent by 2004.

A typical family with two children, earning \$60,000, will receive \$200 in additional benefits in 2001. By the fifth year, their benefit will more than double – from \$733 to \$1,541.

Mr. Speaker, the challenges of raising a family are compounded when a child has a disability. In some of these cases, full-time home care by a parent is a necessity. We will assist these families by increasing the disability tax credit by up to \$500 per year.

In addition, for families with disabled children, we will increase the maximum annual child care expense deduction from \$7,000 to \$10,000.

We will also introduce a number of other tax measures to further assist persons with disabilities and we will make permanent the Opportunities Fund – a pilot project to assist persons with disabilities prepare for, obtain and keep employment.

Mr. Speaker, our government inherited three major legacies in the area of income tax which had been introduced to help reduce the deficit.

In 1999, we eliminated the 3-per-cent surtax.

This budget restores indexation of the personal income tax system.

Today, we are also committing to eliminate the last of these legacies.

Effective this July, we will eliminate the surtax for middle-income Canadians on earnings up to \$85,000. Over the next five years, we will eliminate it altogether.

Mr. Speaker, since 1994, employment insurance (EI) rates have been reduced each and every year – from \$3.07 to \$2.40. These rates will keep coming down to the point where they cover just the costs of the EI program itself. For planning purposes, we have assumed that they will fall to \$2.00 in 2004.

Mr. Speaker, adequate incomes in retirement are a critical requirement for any society. Diversification of registered retirement savings plans and registered pension plans, in turn, is an important part of ensuring that income.

Accordingly, we will increase the foreign content allowed in retirement plans to 30 per cent, beginning with a 5-percentage-point rise in the year 2000, followed by another 5-point rise in 2001.

Mr. Speaker, to sustain the growth which underpins our economy, we need a corporate tax system that is internationally competitive.

At the moment, a number of Canadian industries do enjoy competitive tax rates of about 21 per cent.

But there are others – where much of the new job creation is occurring, such as high-tech services – which shoulder tax rates that are much higher, yet they are up against companies around the world that pay lower taxes in their home countries.

If we are to unleash the creative energies of our economy, if we are to encourage innovation and expand job creation, then these tax rates must be brought down to allow our companies to compete vigorously.

Therefore, Mr. Speaker, we are announcing that over the next five years, we will lower the tax rate for these higher-taxed industries from 28 to 21 per cent – putting all sectors of the Canadian economy on an internationally competitive footing.

As a first step, the rate will drop to 27 per cent as of January 1, 2001.

Mr. Speaker we have talked about the importance of innovation in developing a modern economy. And just as we are making investments to that end, we must also introduce tax measures that encourage entrepreneurship and risk taking.

This budget proposes action on three fronts.

First, we will reduce the taxation of capital gains by lowering their inclusion rate from three-quarters to two-thirds, effective immediately.

Second, we will allow up to \$100,000 in stock options granted annually to be exercised with the tax being paid only when the shares are actually sold.

Third, a key factor contributing to the difficulty of raising capital by new start-ups is the fact that individuals who sell existing investments and reinvest in others must pay tax on any realized capital gains.

Therefore, Mr. Speaker, we will allow a \$500,000 tax-free rollover for qualifying investments, thereby increasing the amount these investors can put into new ventures.

Finally, Mr. Speaker, this budget proposes a measure which specifically benefits small but growing businesses – a major engine of both innovation and job growth in our economy.

Small businesses have told us that the most important steps we could take to assist them would be to lower personal income taxes, provide for rollovers, remove the 5-per-cent surtax and reduce the tax on capital gains.

This budget does all of these. It also, however, includes one further measure.

At the present time, the corporate tax rate rises dramatically – from 12 to 28 per cent – once non-manufacturing small businesses reach \$200,000 in income.

We are announcing today that the reduction in the corporate rate to 21 per cent, which is being phased in for large businesses, will fully apply to all small business on income between \$200,000 and \$300,000, effective January 1, 2001.

Mr. Speaker, the five-year tax plan – both personal and corporate – which we have outlined today is far-reaching, both in terms of the structural direction it outlines and in terms of the size of the tax relief it permits.

Mr. Speaker, this budget provides a minimum of \$58 billion in cumulative tax relief to Canadians over the next five years, it cuts personal income taxes by an average of 15 per cent and for many, much more than that.

For low- and middle-income Canadians, for instance, taxes will fall by some 18 per cent on average, and for families with children, by an average of 21 per cent.

Let me give you some specific examples of how this budget will benefit Canadians.

Indexation will help lower-income Canadians most. Indeed, they will receive almost 40 per cent of the tax reduction it affords.

They will receive more than \$500 million by the fifth year in additional GST credits. They will automatically receive increases in child tax benefits.

Other examples:

Two seniors, with family income of \$30,000, will see their net federal taxes fall by 45 per cent by 2004.

A one-earner family of four earning \$40,000 will see its net federal taxes reduced by 17 per cent next year and by 48 per cent by 2004. That is a savings of more than \$1,600.

A one-earner family of four with income up to \$32,000 will receive more in benefits than they will pay in federal taxes. As a result, they will pay no net federal tax next year and by 2004, this family will be able to earn up to \$35,000 and still pay no net federal tax.

A single parent earning \$30,000, with one child, will see his or her net federal benefits increase from \$32 to \$1,018 by 2004.

A two-earner family with two children, with an income of \$40,000, will see their net taxes cut almost in half next year, and they will pay no net federal tax by 2004. This represents a savings of \$1,244.

Finally, a two-earner family with two children and with \$60,000 in income will see their taxes cut by almost 9 per cent next year and by 27 per cent by 2004. That is a saving of more than \$1,500.

One further point – at the beginning of this presentation, I said that while we would set out five-year objectives we would make our decisions based on a rolling two-year time horizon.

This is particularly important when hearing these examples because it means that substantial as they are, the tax cuts outlined in this budget reflect the least, not the most, we will do. In subsequent budgets, as resources permit, we will do more.

That is how we eliminated the deficit. That is how we will reduce taxes.

Conclusion

Mr. Speaker, this is a budget with many elements, but a single theme: creating better lives for Canadians in a rapidly changing world.

It is a budget that makes innovation the driving force of our economy.

It puts more money into post-secondary education and health care.

It acts to preserve our environment and to capture the opportunities it affords.

It speaks to our values by recognizing the importance of children.

Mr. Speaker, this budget restores indexation to the Canadian tax system.

It cuts federal tax rates for the first time in more than 12 years.

It supports job growth by making Canadian business more internationally competitive.

It is a budget that says you can cut taxes and invest in tomorrow at the same time.

It is a budget that sets its sights firmly on the future and charts the course to take us there.

It is a budget that says, while we can't imagine the world our children will live to see, our responsibility to their future is clear.

We must lay the foundation on which they will stand; we must preserve the values on which they will build.

May it be said of us that we, in our time, laid that foundation and preserved those values.

And may we embrace the future with confidence – the confidence of a people who know that for all of our achievements as a nation, for all of the greatness of our history, the best of Canada is yet to come.

